

Message Text

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ACTION EB-06

INFO OCT-01 NEA-06 IO-04 ISO-00 AGR-05 CEA-01 CIAE-00

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NSAE-00 NSC-05 PA-01 RSC-01 AID-05 CIEP-01 SS-15

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TAGS: GATT ETRD IS

SUBJECT: GATT BOP CONSULTATIONS-ISRAEL

REF: STATE 224107

1. SUMMARY: ISRAEL SAID OWN ABILITY SOLVE BOP PROBLEMS BY EXPANING EXPORTS LIMITED BY WORLD PROBLEM OF REPRECUSIONS OF HIGHER OIL PRICES. COMMITTEE ACKNOWLEDGED THIS LINK BUT NOTED ISRAEL ALSO HAD OTHER MORE UNIQUE OBSTACLES TO RESOLUTION BOP AND URGED END TO RESTRICTIONS AS SOON AS PRACTICAL. END SUMMARY.

2. DURING OCTOBER 15 AND 22 GATT BALANCE-OF-PAYMENTS COMMITTEE CONSULTATIONS, ISRAEL (TALBAR) SAID TRADE DEFICIT OF \$1.5 BILLION FOR FIRST EIGHT MONTHS 1974 WAS 59 PERCENT HIGHER THAN CORRESPONDING PERIOD 1973 AND INFLATION HAD REACHED ANNUAL RATE OF 30 PERCENT. OVERALL BOP DEFICIT FOR 1974 ESTIMATED AT \$3.3 BILLION. IN ADDITION TO DIFFICULTIES RESULTING FROM 1973 WAR, ISRAEL POINTED TO GROW-
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ING COST OF RAW MATERIAL AND FOOD IMPORTS AND SLACKENDED

WORLD DEMAND FOR DIAMONDS, TEXTILES, CONSUMER GOODS, AND TOURIST SERVICES. ISRAEL SAID OWN FISCAL MEASURES TO COPE WITH SITUATION INCLUDED INCREASING IMPORT SURCHARGE BY 10 PERCENT; TAXES ON REAL ESTATE, CARS, LOANS; FREEZE ON BUILDING ACTIVITIES. SAID PRIOR DEPOSITS HAD FROZEN 750 MILLION ISRAEL POUNDS, HAD BEEN MODIFIED AFFECT ONLY GOODS PAYING OVER 25 PERCENT TARIFF. MEANWHILE, AVERAGE TARIFF STILL REDUCED 5 PERCENT. IMPORT MEASURES TO BE IN FORCE ANOTHER 12 MONTHS.

3. ISRAEL ANNOUNCED TERMINATION OF BILATERAL TRADE AGREEMENTS WITH BULGARIA AND BRAZIL, AND SAID TALKS ON FULL FREE-TRADE AREAS WITH EC WERE PROGRESSING, AND EXPRESSED HOPE MTNS WOULD PROVIDE MEANS FOR EXPANDING EXPORTS. ISRAEL SAID, HOWEVER, "OUR FATE HANGS ON WESTERN WORLD, WHICH ITSELF HAS TO PAY SO MUCH FOR OIL AND RAW MATERIALS". SAID WHAT WAS REALLY NEEDED TO CORRECT ISRAEL BOP WAS TWO "MIRACLE" CONDITIONS: UPSWING IN WESTERN ECONOMIES JOINTLY OVERCOMING THEIR CRISES AND REAL PEACE WITH ISRAEL NEIGHBORS.

4. IMF REP SAID TEMPORARY MAINTENANCE OF PRIOR IMPORT DEPOSIT AND SURCHARGE IN CONJUNCTION WITH CONTINUED MONETARY AND FISCAL MEASURES DOES NOT GO BEYOND MEASURES NEEDED TO FORESTALL MORE SERIOUS DECLINE IN RESERVES.

5. US (SPRUCE) EXPRESSED UNDERSTANDING FOR ISRAELI BOP DIFFICULTIES, REGRETTED NEED TO INTENSIFY RESTRICTIONS, NOTED MEASURES TAKEN TO RESTRAIN DOMESTIC DEMAND, ENCOURAGED CONTINUED RELIANCE ON EXPORT EXPANSION, AND ASKED IMPORT MEASURES BE PHASED OUT AS SOON AS CONDITIONS PERMIT. EC (DUGIMONT) HOPED ISRAEL WOULD ENCOURAGE MORE CAPITAL IMPORTS AND WOULD RELY ON EXPANDING IMPORTS RATHER THAN RESTRICTING IMPORTS. EC SAW WILL TO CONTINUE PROCESS OF LIBERALIZATION. SWEDEN AND JAPAN REGRETTED NEED FOR RESTRICTIONS AND ASKED TERMINAL DATE FOR RESTRICTIONS.

6. ISRAEL SAW LITTLE POSSIBILITY FOR DRAMATIC EXPANSION OF EXPORTS IN FORESEEABLE FUTURE IN ABSENCE TWO MIRACLE LIMITED OFFICIAL USE

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CONDITIONS (PARA 3 ABOVE); SAID TEXTILES, FOOD PRODUCTS MARKETS PROTECTED IN DEVELOPED COUNTRIES, THERE LITTLE PROSPECT FOR MORE EXPORTS THERE; SAID WESTERN WORLD LIQUIDITY IS PROBLEM. SAID IF WEST CAN'T FACE PROBLEM, THEN GATT AND OTHER ORGANIZATIONS WILL HAVE TO CHANGE, "TO SAY THE LEAST". SAID PEOPLE MUST REALIZE ALL THIS IS HAPPENING IN REAL WORLD; PEOPLE STILL HIDING, USING OLD INSTITUTIONS.

7. CHAIRMAN PROPOSED COMMITTEE'S REPORT ALLUDE TO WORLD DIFFICULTIES; U.S. AGREED AND SAID WE AGREE WITH HOPE THAT TWO CONDITIONS LABELED AS MIRACLE BY ISRAEL WOULD BE RESOLVED. U.S. SAID LINK WITH WORLD OIL AND COMMODITY PRICES MUST BE DONE WITH CAUTION IN ORDER AVOID COMMITTEE'S APPEARING JUSTIFY PROLIFERATION OF RESTRICTIONS BY OTHER COUNTRIES. JAPAN AND AUSTRALIA SUPPORTED.

8. SECTION OF COMMITTEE'S CONCLUSION PARTIAL LINKAGE OF ISRAEL'S BOP SITUATION TO WORLD CONDITIONS AS FOLLOWS: "COMMITTEE RECOGNIZED ISRAEL HAD SERIOUS BOP PROBLEMS AND HEAVY DEBT BURDEN AND THAT ITS PAYMENTS PROBLEMS WERE PRIMARILY RELATED TO FACTORS THAT ALREADY EXISTED BEFORE CURRENT WIDESPREAD BOP DIFFICULTIES HAD ARISEN. COMMITTEE NOTED THAT STRONG PRESSURES EXISTED IN IN MANY COUNTRIES TO ADOPT TRADE RESTRICTIONS IN PRESENT PERIOD OF EXCEPTIONAL AND WIDESPREAD BOP PAYMENTS DIFFICULTIES. IT THEREFORE ESPECIALLY IMPORTANT FOR ALL CPS REFRAIN FROM ADOPTING POLICIES THAT COULD LEAD TO ESCALATION OF TRADE RESTRICTIONS. IN THESE CIRCUMSTANCES, STRENGTHENING OF INTERNATIONAL COOPERATION WAS CALLED FOR. COMMITTEE DID RECOGNIZE ISRAEL'S ABILITY TO REDRESS ITS BOP BY EXPANDING EXPORTS WAS AFFECTED BY ECONOMIC DEVELOPMENTS IN OTHER COUNTRIES." GOES ON TO WELCOME ISRAEL'S FISCAL AND MONETARY MEASURES, NOTE IMPORT RESTRICTIONS TEMPORARY HOPE RESTRICTIONS REMOVED AS SOON AS PRACTICAL, AND WELCOME ISRAEL'S LONG-TERM DECISION TO CONTINUE TARIFF LIBERALIZATION. ABRAMS

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